Tennessee Housing Development Agency

For the Year Ended
June 30, 2001

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

January 29, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Housing Development Agency
and
Ms. Janice L. Myrick, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The agency's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
01/107

State of Tennessee

A u d i t   H i g h l i g h t s

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit
Tennessee Housing Development Agency
For the Year Ended June 30, 2001

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDING

Policies and Procedures Need Improvement
The Section 8 Contract Administration Division's policies and procedures did not address all necessary areas of operations (page 10).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 2001

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Housing Development Agency
For the Year Ended June 30, 2001

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Housing Development Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Housing Development Agency is a corporate governmental agency of the State of Tennessee and was established in 1973 under the provisions of Title 13, Chapter 23, *Tennessee Code Annotated*. The agency was created to increase available funds for the financing of residential housing for low- and moderate-income households. It is authorized to issue bonds and notes to provide such financing. These bonds and notes are payable solely from the agency's revenues and assets and are not general obligations of the state or of any of the state's political subdivisions.

The agency's affairs are directed by a 19-member board of directors and are administered by an executive director. Directors of the agency serving *ex officio* are the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Secretary of State, and a staff assistant to the Governor. Of the remaining 14 members, 12 are appointed by the Governor. The Speaker of the House of Representatives and the Speaker of the Senate each appoint one member. Of the 12 members appointed by the Governor, 9 are required to be representatives of the housing, home-building, real estate, and mortgage-lending professions. The Governor appoints one additional member from each of the three grand divisions of the state; these three are representatives of the public at large.

ORGANIZATION

The agency comprises 12 divisions, each of which is managed by a division director. The Executive; Research, Planning, and Technical Services; and Internal Audit divisions report directly to the executive director. Community Programs, Multi-family and Special Programs, Section 8 Rental Assistance, and Section 8 Contract Administration divisions report to the deputy executive director. Finance, Management Information Systems, Mortgage Administration, Homeownership Mortgage, and Fiscal Administration divisions report to the chief financial officer.

Executive Division - This division is responsible for program development, legal affairs, and human resources.

Research, Planning, and Technical Services Division - This division provides technical assistance to agencies, firms, and individuals; works with other agencies to coordinate community development activities; and conducts and oversees research on housing issues.

Internal Audit Division - This division performs internal audits of all agency programs, grants, and servicing institutions, and is responsible for long-term compliance of the HOUSE, HOME, and Tax Credit Program.

Community Programs Division - This division is responsible for the federal HOME Investment Partnerships Program and the state Housing Opportunities Using State Encouragement (HOUSE) program, which provide funds for locally designed housing efforts.

Multi-family and Special Programs Division - This division administers the Low Income Housing Tax Credit Program for developers of rental properties and allocates multi-family bond authority to local issuers for a specific development.

Section 8 Rental Assistance Division - This division administers the Section 8 Housing Choice Voucher Program. The division's functions include administering housing assistance payment contracts and monitoring and inspecting units (houses, apartments, mobile homes) on an annual basis.

Section 8 Contract Administration Division - This division serves as the contract administrator for "project-based" Section 8 housing assistance payments under contract with the U.S. Department of Housing and Urban Development. Project-based contracts provide rental subsidies to specific rental properties.

Finance Division - This division is responsible for cash management of the agency. This division's major functions are debt management and investment of funds.

Management Information Systems Division - This division is responsible for developing, implementing, and maintaining the agency's computer systems.

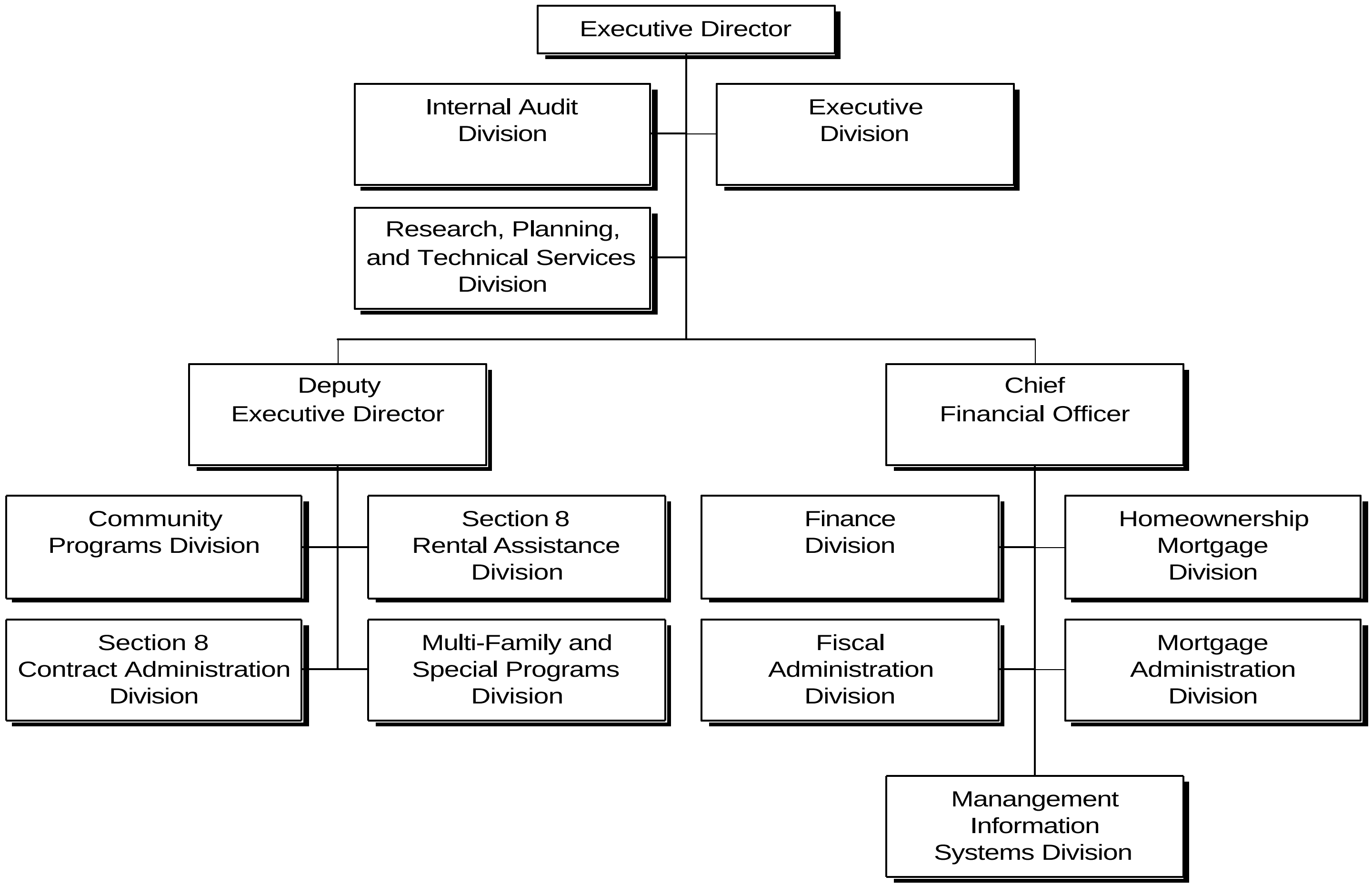
Mortgage Administration Division - This division oversees the collection of loans for the agency. The division provides full in-house servicing of multi-family loans. Single-family loans are serviced by approved servicing agents under the direction of the mortgage administration division.

Homeownership Mortgage Division - This division provides the link between funds available for single-family home loans and the individual prospective homeowners through the development of a statewide network of participating lenders and the underwriting of loans for qualified applicants.

Fiscal Administration Division - This division is responsible for bond, state, and federal accounting; financial reporting; and general administrative areas such as purchasing and fiscal budget planning.

An organization chart for the Tennessee Housing Development Agency is on the following page.

Tennessee Housing Development Agency
Organization Chart



AUDIT SCOPE

The audit was limited to the period July 1, 2000, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2001, and for comparative purposes, the year ended June 30, 2000. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered Fund 13 of the State of Tennessee Accounting and Reporting System (allotment code 316.20).

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by each June 30. The Tennessee Housing Development Agency filed its compliance report and implementation plan on June 29, 2001.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans,* issued annually by the Comptroller of the Treasury.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the agency's financial statements.

STATE OF TENNESSEE
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

November 6, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2001, and have issued our report thereon dated November 6, 2001. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain other less significant instances of noncompliance, which we have reported to the agency's management in a separate letter.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the agency’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency’s ability to record, process, summarize, and report financial data consistent with management’s assertions in the financial statements.

The following reportable condition was noted:

- The Section 8 Contract Administration Division’s policies and procedures need improvement.

This condition is described in the Finding and Recommendation section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the agency’s management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

FINDING AND RECOMMENDATION

<u>The Section 8 Contract Administration Division's policies and procedures need improvement</u>

Finding

The Section 8 Contract Administration Division serves as the contract administrator for 402 Section 8 project-based Housing Assistance Payment (HAP) contracts. Project-based HAP contracts are associated with multi-family housing projects in which rent subsidies are paid to private for-profit and non-profit landlords. The agency has served as contract administrator for 38 of the 402 HAP contracts for over 20 years under the Department of Housing and Urban Development's (HUD's) Section 8 New Construction and Substantial Rehabilitation grant program. In December 2000, the agency was assigned the remaining HAP contracts under a performance-based contract with HUD. Under the terms of the contract, the agency assumed the duties of contract administrator from HUD in exchange for an administrative fee determined by the agency's performance of applicable performance standards.

A contract administrator oversees HAP contracts for Section 8 projects by monitoring and enforcing the compliance of Section 8 owners with the terms of the HAP contract in accordance with HUD regulations and requirements. Depending on the type of contract assignment, the agency accomplishes these objectives by conducting management and occupancy reviews; processing rental adjustments, expiring contracts, and terminated HAP contracts; verifying and certifying accuracy of monthly Section 8 vouchers; verifying and authorizing payment on valid Section 8 special claims; disbursing Section 8 payments to owners; responding to community/resident concerns; reporting contract administration activities to HUD; and following up on HUD's physical inspections.

The Division of Contract Administration's policies and procedures did not address all necessary areas of operations. The absence of detailed policies and procedures contributed to the following deficiencies:

- Property files kept by the agency's project managers did not always contain the documents required by program regulations. Five of the 60 files tested (8%) did not contain a Fair Housing and Equal Opportunity (FHEO) form. The FHEO form is required by program regulations to report on the property owners' compliance with laws against discrimination.

- Documentation contained in property files was inconsistent between property managers. Four of the 60 files tested (7%) did not contain a letter notifying the owner of an upcoming management and occupancy review. The agency performs management and occupancy reviews to monitor the owners' compliance with Section 8 program regulations including, but not limited to, eligibility, selection of tenants from waiting lists, and determination of housing assistance payments.

- During 7 of the 60 management and occupancy reviews examined (12%), the project managers did not test 22 of 60 tenant files (37%) required by the contract with HUD.

- The agency did not test the reviews of tenant files performed by the property owners as required by the contract with HUD. The property owners are required to conduct a 100% review of their tenant files when deficiencies are found in the tenant files during a management and occupancy review.

- Nine of 60 monthly vouchers tested (15%) were processed by the Tenant Rental Assistance Certification System (TRACS) specialists with incorrect recertification dates.

- Resident complaints were not reported properly to HUD because of errors in the setup of the tracking software that prepared the monthly complaint reports. Monthly complaint reports were missing the resolved date for some complaints. In addition, 2 of the 60 complaints tested (3%) were not included on the report in the month the complaint was received.

- Dates related to processing expiring contracts and rent adjustments were entered into HUD's Real Estate Management System inconsistently among the contract renewal specialists, and the dates in the system did not always agree with those in the property files. As a result, it could not be determined if information needed by HUD to approve the renewal of expiring contracts and rent adjustments was entered in the system timely.

- Fourteen of 60 property files tested (23%) did not contain follow-up correspondence when required information was not received from the owner.

Detailed written policies and procedures, an element of a well-established system of internal control, are necessary to ensure the agency meets its duties as contract administrator. Without detailed written policies and procedures for all areas of operations, communication among management and other personnel may be impaired, and tasks may not be carried out consistently in accordance with management's goals.

Recommendation

The Director of Contract Administration should strengthen internal control by developing detailed written policies and procedures for all internal operations. The director should then ensure that all policies and procedures, including updates, are communicated to employees. The director should also monitor employees' compliance with established policies and procedures.

Management's Comment

We concur. The Division of Section 8 Contract Administration (S8CA) performs its duties under a federally funded contract that was initiated in December 2000. As an initial start-up program, every effort was made by management to insure compliance with HUD regulations. The program did initially develop written policies and procedures for the operations. However, as the program began to mature and develop, these existing policies became both insufficient and incomplete in relation to the actual work processes being adjusted. In August 2001, the division recognized the need to redevelop all of the written policies and procedures, including the development of policies for all work processes. This project was completed by November 2001 and as of this response date, all division staff have been fully trained on the policies and procedures. Every area of responsibility specific to the HUD performance-based contract has been addressed in the revised policy and procedures.

A vital component to the development of policies and procedures involves the incorporation of a quality control function within the division. At the time of the audit, this process was incomplete because the Quality Control Coordinator position was vacant. THDA filled the Quality Control Coordinator position on September 1, 2001, under the direction of our Internal Audit division, to coordinate the monitoring of compliance within the S8CA division. The Quality Control Coordinator is responsible for developing a work plan that details the compliance checks that are required to be performed on a monthly basis.

The S8CA division has incorporated a three-step check and balance system in order to ensure employees' compliance with established policies and procedures. This system is initiated by each Section Coordinator consistently reviewing work compliance for the different processes for which their employees are responsible. Enhancing this process, the Quality Control Coordinator both monitors all of the tracking systems designed to identify delinquent and incomplete work as well as conducts compliance checks as per the work plan on a scheduled basis. In addition, each month the division Reports Coordinator collects and analyzes the work performed by each section according to HUD requirements. If any area of noncompliance is identified, the Division Director and Section Coordinator are immediately informed as to the noncompliance status so that corrective changes can be made to the process.

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Independent Auditor's Report

November 6, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2001, and June 30, 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying financial information on pages 35 through 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2001, on our consideration of the agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

TENNESSEE HOUSING DEVELOPMENT AGENCY
BALANCE SHEETS
JUNE 30, 2001 AND JUNE 30, 2000
(Expressed in Thousands)

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 358,192	$ 117,448
Short-term investments (Note 2)	64,030	244,434
Receivables:		
Accounts	9,914	8,438
Interest	17,777	19,706
First mortgage loans	29,438	28,408
Due from federal government	5,978	-
Total current assets	485,329	418,434
Other assets:		
Long-term investments (Note 2)	419,482	391,624
First mortgage loans receivable	1,471,436	1,496,549
Deferred charges	12,325	12,683
Other receivables	16	18
Total other assets	1,903,259	1,900,874
Fixed assets:		
Office furniture and fixtures	72	71
Less: accumulated depreciation	(61)	(51)
Total fixed assets	11	20
Total assets	$ 2,388,599	$ 2,319,328
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Checks payable (Note 3)	$ 2,250	$ 3,145
Accounts payable and accruals	9,807	7,219
Accrued payroll and related liabilities	229	183
Due to primary government	49	38
Interest payable	49,341	50,595
Escrow deposits payable	14,829	14,301
Prepayments on mortgage loans	1,675	2,037
Notes payable (Note 4)	84,865	31,180
Deferred revenue	857	2,158
Bonds payable (Note 4)	162,306	115,110
Total current liabilities	326,208	225,966
Noncurrent liabilities:		
Bonds payable (Note 4)	1,694,020	1,763,759
Less: Unamortized bond refunding costs	(5,831)	(6,208)
Total noncurrent liabilities	1,688,189	1,757,551
Total liabilities	2,014,397	1,983,517
Equity:		
Contributed capital (Note 5)	2,500	2,500
Retained earnings:		
Reserved - Grant Programs (Note 5)	52,204	56,028
Reserved - Program Bonds (Note 5)	72,118	73,112
Reserved - Homebuyers Revolving Loan Program (Note 5)	501	398
Unreserved (Note 7)	246,879	203,773
Total retained earnings	371,702	333,311
Total equity	374,202	335,811
Total liabilities and equity	$ 2,388,599	$ 2,319,328

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000
(Expressed in Thousands)

	2001	2000
OPERATING REVENUES		
Mortgage interest income	$ 108,862	$ 101,501
Investment income		
Interest	29,932	34,906
Net increase (decrease) in the fair value of investments	24,505	(3,788)
Fees and other income	1,184	930
Total operating revenues	164,483	133,549
OPERATING EXPENSES		
Salaries and benefits	1,797	3,186
Contractual services	742	984
Materials and supplies	157	148
Rentals and insurance	186	338
Other administrative expenses	4	112
Other program expenses	624	875
Interest expense	107,466	101,935
Mortgage service fees	5,448	5,073
Issuance costs	846	958
Depreciation	10	8
Total operating expenses	117,280	113,617
Operating income	47,203	19,932
NONOPERATING REVENUES (EXPENSES)		
Federal grants revenue	68,865	39,046
Federal grants expenses	(68,865)	(39,046)
Local grants expenses	(8,629)	(12,990)
Total nonoperating revenues (expenses)	(8,629)	(12,990)
Income before extraordinary loss	38,574	6,942
Extraordinary loss on early retirement of debt (Note 4)	(183)	(326)
Net income	38,391	6,616
Retained earnings, July 1	333,311	326,695
Retained earnings, June 30	$ 371,702	$ 333,311

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000
(Expressed in Thousands)

	2001	2000
Cash flows from operating activities:		
Receipts from customers	$ 248,777	$ 235,181
Other miscellaneous receipts	1,186	933
Acquisition of mortgage loans	(116,946)	(420,922)
Payments to service mortgages	(5,448)	(5,073)
Payments to suppliers	(2,670)	(3,103)
Payments to federal government	(547)	(1,560)
Payments to employees	(1,672)	(3,143)
Net cash provided (used) by operating activities	122,680	(197,687)
Cash flows from non-capital financing activities:		
Operating grants received	63,809	40,459
Negative cash balance implicitly financed (repaid)	(895)	(5,254)
Proceeds from sale of bonds	135,390	513,974
Proceeds from issuance of notes	84,865	31,180
Operating grants paid	(77,494)	(52,036)
Cost of issuance paid	(1,092)	(1,070)
Principal payments	(194,467)	(357,693)
Interest paid	(102,560)	(88,154)
Net cash provided (used) by non-capital financing activities	(92,444)	81,406
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	-	(16)
Net cash used by capital and related financing activities	-	(16)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	509,209	218,191
Purchases of investments	(335,259)	(281,286)
Investment interest received	36,558	37,515
Net cash provided (used) by investing activities	210,508	(25,580)
Net increase (decrease) in cash and cash equivalents	240,744	(141,877)
Cash and cash equivalents, July 1	117,448	259,325
Cash and cash equivalents, June 30	$ 358,192	$ 117,448

The Notes to the Financial Statements are an intergral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
FOR THE YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000
(Expressed in Thousands)

	2001	2000
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 47,203	$ 19,932
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	856	966
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,476)	5,024
(Increase) decrease in mortgage interest receivable	(123)	(993)
(Increase) decrease in first mortgage loans receivable	24,083	(289,064)
(Increase) decrease in deferred charges	(9)	107
(Increase) decrease in other receivables	2	3
Increase (decrease) in accounts payable	213	(2,824)
Increase (decrease) in accrued payroll	46	5
Increase (decrease) in due to primary government	11	1
Increase (decrease) in deferred revenue	319	14
Investment income included as operating revenue	(55,911)	(32,793)
Interest expense included as operating expense	107,466	101,935
Total adjustments	75,477	(217,619)
Net cash provided (used) by operating activities	$ 122,680	$ (197,687)
Noncash investing, capital, and financing activities:		
Accretion of deep discount bonds	$ 5,353	$ 5,783
Cost of Issuance	-	2,027
Total noncash investing, capital, and financing activities	$ 5,353	$ 7,810

The Notes to the Financial Statements are an intergral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, and Homeownership Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Depreciation

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors.

e. Bond Issuance Costs, Refunding Costs, and Interest Accretion

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the bonds outstanding method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.

2. Bond Refunding Costs: The agency amortizes bond refunding costs using the straight-line method. Bonds payable are reported net of the unamortized bond refunding costs.

3. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.

4. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

f. Cash and Cash Equivalents

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

g. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value.

h. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

i. Mortgages

Mortgages are carried at their original amount less principal collected.

j. Reclassifications

Effective June 30, 2001, the agency discontinued reporting warrants payable as a liability on the balance sheet. The issuance of warrants, rather than the subsequent acceptance by the treasurer of the warrants, is deemed to effectively reduce the cash balance. The June 30, 2000, warrants payable amount previously reported has been reclassified against the cash balance for comparative purposes.

The agency has prepared the Statements of Cash Flows using the direct method of reporting cash flows. The direct method presents the cash receipts and cash disbursements of the agency for the year, including cash flows from operating activities. Operating activities are generally the cash effects of transactions and other events that enter into the determination of operating income. A reconciliation of the operating income to net cash flow from operating activities is also presented in this statement. The Statement of Cash Flows for the year ended June 30, 2000, was previously presented using the indirect method of reporting cash flows. Under the indirect method, the operating income is reconciled to the net cash flow from operating activities and nonoperating cash receipts and cash disbursements are presented. The June 30, 2000, statement has been restated using the direct method of reporting cash flows for comparative purposes.

In addition, certain other less significant amounts have been reclassified for comparative purposes.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Until December 10, 2000, all of the agency's deposits were in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. After December 10, 2000, some of the agency's deposits were in financial institutions that do not participate in the bank collateral pool.

At June 30, 2001, the carrying amount of the agency's deposits was $21,857,503, and the bank balance was $23,215,763. Of the bank balance, $22,571,853 was insured and $643,910 was uninsured and uncollateralized. From December 11, 2000, to June 30, 2001, the agency had uncollateralized deposits in varying amounts as high as $4,176,875 due to significantly higher cash flows at certain times during this period.

At June 30, 2000, the carrying amount of the agency's deposits was $17,686,910, and the bank balance was $19,327,472. All bank balances were insured.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $32,697,885 on June 30, 2001 and $28,132,178 on June 30, 2000. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001 and June 30, 2000.

b. Investments

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name. Investments are categorized as follows:

June 30, 2001

	Category 1	Category 2	Category 3	Fair Value
Cash equivalents and short-term investments				
Repurchase agreements	**$ 116,502,020**		**$ 3,997,980**	**$ 120,500,000**
U S government securities	**247,076,397**			**247,076,397**
State & local government securities	**90,000**			**90,000**
Total cash equivalents and short-term investments	**$ 363,668,417**		**$ 3,997,980**	**$ 367,666,397**
Long-term investments				
U S government securities	**$ 418,933,739**			**$ 418,933,739**
State & local government securities	**549,191**			**549,191**
Total long-term investments	**$ 419,482,930**			**$ 419,482,930**
Total	**$ 783,151,347**		**$ 3,997,980**	**$ 787,149,327**

June 30, 2000

	Category 1	Category 2	Category 3	Fair Value
Cash equivalents and short-term investments				
Repurchase agreements	**$ 183,192,996**		**$184,004**	**$ 183,377,000**
U S government securities	**132,686,634**			**132,686,634**
Total cash equivalents and short-term investments	**$ 315,879,630**		**$184,004**	**$ 316,063,634**
Long-term investments				
U S government securities	**$ 390,607,096**			**$ 390,607,096**
State & local government securities	**1,016,636**			**1,016,636**
Total long-term investments	**$ 391,623,732**			**$ 391,623,732**
Total	**$ 707,503,362**		**$184,004**	**$ 707,687,366**

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. REVENUE BONDS AND NOTES PAYABLE

a. Bonds Issued and Outstanding

The following tables are a summary of bonds issued and outstanding as of June 30, 2001, and June 30, 2000.

BONDS ISSUED (Thousands)							BONDS OUTSTANDING (Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-2001	06-30-2000
MORTGAGE FINANCE PROGRAM BONDS								
1993A	1/1/99-7/1/2008	$136,420	4.70 to 5.70	7/1/2010	$ 15,365	5.800		
				7/1/2013	25,540	5.850		
				7/1/2018	28,815	5.900		
				7/1/2028	59,770	5.950	$234,920	$246,310
1994A	1/1/96-7/1/2009	14,760	4.4 to 6.35	1/1/2019	20,835	6.400		
				7/1/2025	24,405	6.900	36,620	40,315
1994B	7/1/96-7/1/2011	30,095	4.50 to 6.40	7/1/2014	10,015	6.450		
				7/1/2019	21,810	6.550		
				7/1/2025	38,080	6.600	62,805	69,670
1995A	1/1/97-7/1/2008	14,270	5.45 to 6.55	7/1/2010	3,735	6.650		
				7/1/2014	9,350	6.850		
				7/1/2020	20,485	7.050		
				7/1/2026	32,160	7.125	48,230	53,525
1995B				7/1/2015	3,135	6.150		
				7/1/2018	12,155	6.200	15,290	15,290
1995C	1/1/97-7/1/2009	22,990	4.8 to 5.95	7/1/2015	15,300	6.100		
				7/1/2021	14,685	6.450		
				7/1/2026	31,735	6.550	51,735	58,690
TOTAL MORTGAGE FINANCE PROGRAM BONDS		$218,535			$ 387,375		$449,600	$483,800
HOMEOWNERSHIP PROGRAM BONDS								
Issue G	7/1/89-7/1/2002	$ 16,345	5.25 to 7.5	7/1/2006	$ 8,500	7.650	$ 5	$ 3,450
Issue K	7/1/92-7/1/2003	18,960	6.4 to 7.7	7/1/2021	52,755	8.125		
				7/1/2004 to 7/1/2008	3,060	7.90 to 8.10	1	1
					Interest accretion		2	2
Issue M				7/1/2017	28,740	7.125	25,340	25,340
Issue N	7/1/91-7/1/2008	29,000	6.7 to 7.5	7/1/2011	8,725	7.600		
				7/1/2020	19,275	7.650	5	9,765
Issue O	7/1/91-7/1/2005	21,580	6.4 to 7.5	7/1/2009	10,675	7.700		
				7/1/2020	51,745	7.750	480	9,875
Issue P	7/1/97-7/1/2010	17,540	6.85 to 7.50	7/1/2016	22,460	7.700	7,851	9,874
					Interest accretion		9,767	10,683
Issue S	7/1/92-7/1/2005	16,210	6.2 to 7.4	7/1/2010	10,985	7.500		
				7/1/2022	51,405	7.625	1,700	6,215
Issue T	7/1/92-7/1/2002	9,560	5 to 6.75	7/1/2011	15,875	7.300		
				7/1/2023	46,940	7.375	47,000	66,170
Issue U	7/1/00-7/1/2006	10,570	6.40 to 6.95	7/1/2011	11,460	7.350		
				7/1/2016	15,660	7.400	22,245	24,900
Issue V	7/1/92-7/1/99	7,725	5.30 to 6.55	7/1/2022	29,585	7.650	5	5
Issue WR	7/1/94-7/1/2007	15,020	4.25 to 6.45	7/1/2012	9,725	6.700		
				7/1/2017	25,155	6.800	36,250	39,740
Issue Y1	1/1/95-7/1/2007	4,860	3.50 to 5.60	7/1/2013	3,660	5.800		
				7/1/2017	3,245	5.900	9,405	9,760
Issue Z1	1/1/95-7/1/2007	5,505	3.75 to 5.85	7/1/2013	3,535	6.000		
				7/1/2023	16,250	5.375		
				7/1/2024	12,945	6.100	19,765	21,795
Issue Y2	1/1/04-7/1/2007	1,520	5.00 to 5.20	7/1/2013	2,965	5.450		
				7/1/2017	2,575	5.550	6,890	6,890
Issue Z2	1/1/95-7/1/2003	3,790	3.5 to 5.0	7/1/2023	12,000	5.000		

BONDS ISSUED (Thousands)							BONDS OUTSTANDING (Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-2001	06-30-2000
HOMEOWNERSHIP PROGRAM BONDS (cont.)								
				7/1/2024	7,150	5.750	11,480	13,210
1995-1	1/1/97-7/1/2010	16,965	4.35 to 6.05	7/1/2016	13,060	6.350		
				7/1/2021	15,635	6.400		
				1/1/2026	19,340	6.480	26,855	27,305
1996-1A	7/1/97	290	4.00	7/1/98-7/1/2012	12,225	4.10 to 5.60		
				7/1/2015	4,210	5.700		
				7/1/2017	3,255	5.750		
				7/1/2022	10,090	5.800		
				1/1/2026	9,125	5.850	32,570	35,030
1996-1B	7/1/2010-1/1/2011	805	5.35 to 5.45				805	805
1996-2A	1/1/98-7/1/2014	20,310	4.40 to 6.15	7/1/2016	4,675	6.000		
				7/1/2022	18,360	6.350		
				1/1/2027	18,835	6.375	53,420	55,820
1996-2B	7/1/2009-1/1/2011	2,820	5.70 to 5.80				2,820	2,820
1996-3	7/1/99-7/1/2012	16,490	4.30 to 5.65	7/1/2017	10,670	5.850		
				7/1/2023	18,540	5.850		
				1/1/2028	19,300	6.000	41,615	42,200
1996-4 A	7/1/98-7/1/2011	13,535	4.35 to 6.00	7/1/2016	8,975	6.050		
				7/1/2022	15,485	6.375		
				1/1/2027	16,400	6.450	50,625	51,770
1996-4 B	1/1/2011	605	5.85				605	605
1996-5A	7/1/99-7/1/2012	8,180	4.00 to 5.35	7/1/2017	4,825	5.500		
				7/1/2023	7,935	5.550		
				7/1/2028	9,060	5.750	29,090	29,555
1996-5B	7/1/99- 7/1/2012	8,880	3.85 to 5.05	7/1/2017	4,835	5.000		
				7/1/2023	7,700	5.375		
				7/1/2028	8,585	5.400	28,855	29,340
1997-1	7/1/99-7/1/2012	16,385	4.00 to 5.10	7/1/2017	9,695	5.000		
				7/1/2023	15,845	5.375		
				1/1/2028	15,960	5.400	55,860	56,875
1997-2	7/1/2000- 7/1/2013	15,040	3.20 to 4.75	01/01/2018	7,495	5.100		
				01/01/2024	13,040	5.150		
				01/01/2029	14,425	5.200	49,315	50,000
1997-3A	1/1/98-7/1/2008	40,911	4.00 to 5.35	7/1/2012	23,174	5.125		
				1/1/2017	1,133	5.875		
				7/1/2017	2,746	5.875	43,749	48,666
					Interest accretion		9,245	7,290
1997-3B				7/1/2016	20,044	5.725	20,044	20,044
					Interest accretion		4,697	3,339
1998-1	7/1/2001-7/1/2014	14,800	3.95 to 5.20	1/1/2019	7,500	5.250		
				1/1/2024	10,655	5.300		
				1/1/2030	17,045	5.400	49,575	49,985
1998-2	7/1/2000- 7/1/2012	7,850	4.00 to 5.05	7/1/2017	4,620	5.100		
				7/1/2023	7,385	5.350		
				7/1/2029	10,145	5.375	29,350	29,950
1998-3A	7/1/2000- 7/1/2001	700	3.70 to 3.90	1/1/2024	11,135	5.250		
				1/1/2030	13,365	5.300	24,110	25,200
1998-3B	7/1/2001- 7/1/2012	9,475	3.80 to 4.80	1/1/2017	5,325	5.000	14,800	14,800
1998-3C	7/1/2001- 7/1/2013	9,325	4.30 to 5.50	1/1/2020	8,000	6.000		
				1/1/2025	8,545	6.125		
				1/1/2031	14,130	6.150	40,000	40,000
1999-1A	7/1/2001 – 7/1/2014	11,090	3.95 to 5.20	1/1/2019	5,615	5.250		
				1/1/2024	7,980	5.300		
				1/1/2031	15,315	5.400	39,695	40,000
1999-1B				7/1/2019	1,000	6.250	1,000	1,000
1999-2A	7/1/2001 - 7/1/2014	25,500	4.25 to 5.45	7/1/2018	11,625	5.600		
				7/1/2025	20,985	5.650		
				7/1/2031	34,220	5.700	92,060	92,325
1999-2B				7/1/2020	7,670	5.500	7,670	7,670

BONDS ISSUED (Thousands)							BONDS OUTSTANDING (Thousands)	
SERIAL BONDS				TERM BONDS				
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)	06-30-2001	06-30-2000
HOMEOWNERSHIP PROGRAM BONDS (cont.)								
1999-2C				8/15/2000	50,000	3.570	-0-	50,000
1999-3	7/1/2001 – 7/1/2013	25,630	4.30 to 5.50	1/1/2020	22,025	6.000		
				1/1/2025	23,495	6.125		
				1/1/2031	38,850	6.150	109,750	110,000
2000-1	7/1/2001 – 7/1/2014	24,945	4.60 to 6.05	7/1/2020	19,230	6.125		
				7/1/2025	22,525	6.375		
				7/1/2031	38,300	6.400	104,965	105,000
2000-2A				1/1/2031	22,000	7.930	22,000	22,000
2000-2B	7/1/2001 – 7/1/2015	24,060	5.00 to 6.20	1/1/2020	12,770	6.250		
				1/1/2026	23,585	6.250		
				7/1/2030	10,000	6.350		
				1/1/2031	17,585	6.350	88,000	88,000
2001-1A				7/1/2001	4,250	3.410		
				1/1/2021	14,235	5.550		
				7/1/2021	1,015	5.550		
				7/1/2032	23,430	5.650	42,930	-0-
2001-1B	1/1/2002 – 7/1/2011	12,635	3.25 to 4.70	1/1/2018	11,825	5.375	24,460	-0-
2001-1C				1/1/2021	27,260	4.95	27,260	-0-
2001-1D				7/1/2015	40,740	4.70	40,740	-0-
TOTAL HOMEOWNERSHIP PROGRAM BONDS		$505,411			$1,517,107		$1,406,726	$1,395,069
TOTAL ALL ISSUES		$723,946			$1,904,482		$1,856,326	$1,878,869

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2001 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2002	$ 43,030	$ 102,113	$ 145,143
2003	44,772	102,372	147,144
2004	46,199	100,430	146,629
2005	51,952	99,784	151,736
2006	57,481	99,204	156,685
2007 – 2011	279,780	442,236	722,016
2012 – 2016	340,136	371,550	711,686
2017 – 2021	376,470	250,906	627,376
2022 – 2026	345,075	129,665	474,740
2027 – 2031	236,755	38,201	274,956
2032 – 2033	10,965	434	11,399
Total	$1,832,615	$1,736,895	$ 3,569,510

The debt principal in the preceding table is $23.7 million less than that presented in the accompanying financial statements. This amount, representing the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds, has been reported as bond principal in the financial statements; it has been reported here as interest in those years (2002-2017) in which the bonds mature.

c. Redemption of Bonds and Notes

During the year ended June 30, 2001, prepayments were used to retire bonds at par before maturity in the Mortgage Finance Program in the amount of $3,050,000 and in the Homeownership Program in the amount of $20,587,888. The respective carrying values of these bonds were $3,023,869 and $20,430,666. This resulted in a loss to the Mortgage Finance Program of $26,131 and the Homeownership Program of $157,222.

On July 1, 2000, the agency used $29,913,856 of Homeownership Program Bonds, Issue 2000-2 A&B and $5,270,000 of Homeownership Program Notes, Issue 2000-2 C&D to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $16,098,616 early redemption and $19,085,240 current maturities). The carrying amount of these bonds was $35,058,361. The refunding resulted in a difference of $125,495 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The refunding increased the agency's debt service by $55,516,231 over the next 32 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $6,692,462.

On August 15, 2000, the agency used $29,131,144 of Homeownership Program Bonds, Issue 2000-2 A&B and $20,865,000 of Homeownership Program Notes, Issue 2000-2 C&D to refund Homeownership Program Bond Issue 1999-2C, which matured on this date.

On December 15, 2000, the agency issued $200,000,000 of convertible drawdown notes, 2000CN-1, of which $44,705,000 was drawn down to refund on January 2, 2001 certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $35,960,000 early redemption and $8,745,000 current maturities). The carrying amount of these bonds was $44,401,481. The refunding resulted in a difference of $303,519 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to current operations. This refunding was accomplished using proceeds of short-term debt, which will in turn be refunded upon maturity; therefore, the full economic impact of the refunding was not determined as of June 30, 2001.

On March 13, 2001, the agency drew down $31,180,000 of convertible drawdown notes, 2000CN-1. These proceeds were used to refund Homeownership Program Notes, Issue 2000-2 C&D, which matured on March 15, 2001.

On May 31, 2001 the agency issued $135,390,000 in Homeownership Program Bonds, Issue 2001-1 A, B, C & D, of which $127,530,000 will be used on July 1, 2001 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $117,170,000 early redemption and $10,360,000 current maturities).

On June 25, 2001, the agency drew down $8,980,000 of convertible drawdown notes, 2000CN-1. These proceeds will be used on July 1, 2001 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $900,000 early redemption and $8,080,000 current maturities).

During the year ended June 30, 2000, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10,175,000 and in the Homeownership Program in the amount of $31,887,921. The respective carrying values of these bonds were $10,101,570 and $31,634,893. This resulted in a loss to the Mortgage Finance Program of $73,430 and the Homeownership Program of $253,028.

On July 1, August 12, and September 10, 1999, the agency used $60,205,000 of Bond Issue 1999-1, which were issued on June 17, 1999, to refund certain bonds and notes previously issued in the

Mortgage Finance Program, the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. The carrying amount of those bonds and notes was $59,789,149. The refunding resulted in a difference of $415,851 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service over the next 31 years by $14,614,562 and realized an economic gain (the difference between the present values of the old and new debt service payments) of $16,430,410.

On July 29, 1999, the agency issued $150,000,000 in Homeownership Program Bonds, Issue 1999-2, of which $43,105,000 was used on September 9 and 10, 1999 to refund certain bonds and notes previously issued in the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. The carrying amount of those bonds and notes was $42,731,578. The refunding resulted in a difference of $373,422 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service over the next 31 years by $9,094,543 and realized an economic gain (the difference between the present values of the old and new debt service payments) of $16,502,378.

On October 20, 1999, the agency remarketed $40,000,000 in Homeownership Program Bonds, Issue 1998-3. The total amount of this bond issue was $80,000,000, of which $62,885,000 was used on December 2, 1998 to refund certain bonds and notes in the Mortgage Finance Program, the Homeownership Program and the Convertible Notes 1997 CN-1. The agency completed the refunding to reduce its total debt service over the next 31 years by $5,231,934 and realized an economic gain (the difference between the present values of the old and new debt service payments) of $10,042,943. Also on this date, the agency issued $110,000,000 in Homeownership Program Bonds, Issue 1999-3, of which $32,645,000 ($23,680,000 early redemption and $8,965,000 current maturities) was used on January 1, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of those bonds was $23,449,331. The refunding resulted in a difference of $230,669 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. The agency completed the refunding to reduce its total debt service over the next 31 years by $1,754,403 and realized an economic gain (the difference between the present values of the old and new debt service payments) of $15,633,882.

On February 17, 2000, the agency issued $105,000,000 in Homeownership Program Bonds, Issue 2000-1, of which $27,670,852 was used on April 1, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of those bonds and notes was $27,437,214. The refunding resulted in a difference of $233,638 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The agency completed the refunding to reduce its total debt service over the next 31 years by $6,697,095 and realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,801,518.

On June 15, 2000, the agency issued $110,000,000 in Homeownership Program Bonds, Issue 2000-2 A & B, and $31,180,000 in Homeownership Program Notes, Issue 2000-2 C & D of which $34,000,000 ($28,955,000 bonds and $5,045,000 notes) was used on June 15, 2000 to refund current maturities of bonds previously issued in the Homeownership Program. An additional $85,180,000 ($59,045,000 bonds and $26,135,000 notes) of the proceeds will be used on July 1, and August 15, 2000 to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. Also on this date, the agency remarketed $1,000,000 of Homeownership Program Bonds, Issue 1999-1B.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 2001

Date of Call	Issue	Par Value	Carrying Amount	Expense/ Loss	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
07/01/2000	94A	$ 1,285,000	$ 1,278,783		($6,217)	Current Refunding
07/01/2000	94B	1,920,000	1,906,195		(13,805)	Current Refunding
07/01/2000	95A	1,390,000	1,377,264		(12,736)	Current Refunding
07/01/2000	95C	990,000	981,423		(8,577)	Current Refunding
07/01/2000	95C	1,690,000	1,675,358	($14,642)		Prepayments
01/01/2001	94A	1,505,000	1,497,855	(7,145)		Current Refunding
01/01/2001	94B	3,405,000	3,381,149	(23,851)		Current Refunding
01/01/2001	95A	2,890,000	2,864,199	(25,801)		Current Refunding
01/01/2001	95C	1,425,000	1,412,961	(12,039)		Current Refunding
01/01/2001	95C	1,360,000	1,348,511	(11,489)		Prepayments
	Sub-Total-	$17,860,000	$17,723,698	($94,967)	($41,335)	
HOMEOWNERSHIP PROGRAM BONDS						
07/01/2000	89N	$ 1,585,000	$ 1,568,658	($16,342)		Prepayments
07/01/2000	89O	5,300,000	5,262,195		($37,805)	Current Refunding
07/01/2000	89O	1,350,000	1,340,371	(9,629)		Prepayments
07/01/2000	90P	538,616	536,800		(1,816)	Current Refunding
07/01/2000	90P	615,478	613,402	(2,076)		Prepayments
07/01/2000	90S	2,865,000	2,835,393		(29,607)	Current Refunding
07/01/2000	90T	625,000	619,644		(5,356)	Current Refunding
07/01/2000	91U	290,000	287,500		(2,500)	Current Refunding
07/01/2000	91U	425,000	421,336	(3,664)		Prepayments
07/01/2000	91W	940,000	930,966	(9,034)		Prepayments
07/01/2000	92Z1	500,000	496,048		(3,952)	Current Refunding
07/01/2000	92Z1	160,000	158,735	(1,265)		Prepayments
07/01/2000	92Z2	395,000	391,876		(3,124)	Current Refunding
07/01/2000	92Z2	125,000	124,011	(989)		Prepayments
07/01/2000	96-1	870,000	864,498	(5,502)		Prepayments
07/01/2000	96-2	710,000	704,828	(5,172)		Prepayments
07/01/2000	96-4	285,000	282,296	(2,704)		Prepayments
07/01/2000	97-1	95,000	94,144	(856)		Prepayments
07/01/2000	97-2	20,000	19,878	(122)		Prepayments
07/01/2000	97-3	2,465,591	2,450,851	(14,740)		Prepayments
07/01/2000	98-1	45,000	44,570	(430)		Prepayments
07/01/2000	98-2	35,000	34,665	(335)		Prepayments
07/01/2000	98-3	65,000	64,303	(697)		Prepayments
07/01/2000	99-2	15,000	14,912	(88)		Prepayments
01/02/2001	86G	2,370,000	2,357,901	(12,099)		Current Refunding
01/02/2001	89N	5,015,000	4,963,035	(51,965)		Current Refunding
01/02/2001	89N	1,610,000	1,593,317	(16,683)		Prepayments
01/02/2001	89O	1,175,000	1,170,710	(4,290)		Prepayments
01/02/2001	90S	480,000	476,724	(3,276)		Prepayments
01/02/2001	90T	17,505,000	17,348,622	(156,378)		Current Refunding
01/02/2001	91U	890,000	882,458	(7,542)		Prepayments
01/02/2001	91W	1,530,000	1,515,572	(14,428)		Prepayments
01/02/2001	92Z1	1,035,000	1,027,014	(7,986)		Current Refunding
01/02/2001	92Z2	810,000	803,745	(6,255)		Current Refunding
01/02/2001	92Z2	95,000	94,266	(734)		Prepayments
01/02/2001	96-1	600,000	596,293	(3,707)		Prepayments
01/02/2001	96-2	740,000	734,730	(5,270)		Prepayments
01/02/2001	96-4	50,000	49,536	(464)		Prepayments
01/02/2001	97-2	245,000	243,543	(1,457)		Prepayments
01/02/2001	97-3	1,346,819	1,339,315	(7,504)		Prepayments
01/02/2001	98-1	365,000	361,608	(3,392)		Prepayments
01/02/2001	98-2	105,000	104,021	(979)		Prepayments
01/02/2001	98-3	710,000	702,578	(7,422)		Prepayments
01/02/2001	99-1	305,000	302,334	(2,666)		Prepayments

Year Ended June 30, 2001 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Expense/ Loss	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)						
01/02/2001	99-2	250,000	248,578	(1,422)		Prepayments
01/02/2001	99-3	250,000	247,892	(2,108)		Prepayments
01/02/2001	2000-1	35,000	34,767	(233)		Prepayments
	Sub-Total	$57,836,504	$57,360,439	($391,905)	($84,160)	
	Total	$75,696,504	$75,084,137	($486,872)	($125,495)	

Year Ended June 30, 2000

Date of Call	Issue	Par Value	Carrying Amount	Expense/ Loss	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
07/01/99	94A	$ 2,485,000	$ 2,472,503		($12,497)	Current Refunding
07/01/99	94B	4,815,000	4,778,665		(36,335)	Current Refunding
07/01/99	95A	9,460,000	9,369,057		(90,943)	Current Refunding
07/01/99	95C	145,000	143,684		(1,316)	Current Refunding
07/01/99	95C	3,600,000	3,567,327	($32,673)		Prepayments
09/01/99	93A	3,845,000	3,828,457	(16,543)		Prepayments
01/01/2000	94A	1,400,000	1,393,096		(6,904)	Current Refunding
01/01/2000	94B	2,785,000	2,764,477		(20,523)	Current Refunding
01/01/2000	95A	2,050,000	2,030,752		(19,248)	Current Refunding
01/01/2000	95C	855,000	847,416		(7,584)	Current Refunding
01/01/2000	95C	2,730,000	2,705,786	(24,214)		Prepayments
04/01/2000	94A	2,030,000	2,020,136		(9,864)	Current Refunding
04/01/2000	94B	4,575,000	4,541,863		(33,137)	Current Refunding
04/01/2000	95A	3,325,000	3,294,291		(30,709)	Current Refunding
04/01/2000	95C	2,025,000	2,007,328		(17,672)	Current Refunding
	Sub-Total-	$ 46,125,000	$45,764,838	($73,430)	($286,732)	
HOMEOWNERSHIP PROGRAM BONDS						
07/01/99	88J	$ 7,135,000	$ 7,071,784		($63,216)	Current Refunding
07/01/99	88K	15,189,030	15,089,849		(99,181)	Current Refunding
07/01/99	90S	32,430,000	32,092,082		(337,918)	Current Refunding
07/01/99	91W	315,000	311,700	($3,300)		Prepayments
07/01/99	91X	1,530,000	1,513,974	(16,026)		Prepayments
07/01/99	92Z1	2,020,000	2,003,277	(16,723)		Prepayments
07/01/99	92Z2	825,000	818,162	(6,838)		Prepayments
07/01/99	96-1	740,000	735,106	(4,894)		Prepayments
07/01/99	96-2	1,225,000	1,215,678	(9,322)		Prepayments
07/01/99	96-4	250,000	247,524	(2,476)		Prepayments
07/01/99	97-3	4,397,769	4,367,691	(30,078)		Prepayments
09/10/99	90S	14,420,000	14,272,133		(147,867)	Current Refunding
01/01/2000	89M	14,140,000	13,987,696		(152,304)	Current Refunding
01/01/2000	89M	3,915,000	3,872,831	(42,169)		Prepayments
01/01/2000	89O	1,175,000	1,166,486	(8,514)		Prepayments
01/01/2000	90P	2,039,847	2,032,557	(7,290)		Prepayments
01/01/2000	90S	2,450,000	2,425,894		(24,106)	Current Refunding
01/01/2000	91U	2,090,000	2,070,888	(19,112)		Prepayments
01/01/2000	91W	2,040,000	2,019,504	(20,496)		Prepayments
01/01/2000	92Z1	880,000	872,880	(7,120)		Prepayments
01/01/2000	92Z2	390,000	386,842	(3,158)		Prepayments
01/01/2000	96-1	1,215,000	1,207,140	(7,860)		Prepayments
01/01/2000	96-2	1,875,000	1,861,036	(13,964)		Prepayments
01/01/2000	96-4	505,000	500,103	(4,897)		Prepayments
01/01/2000	97-1	45,000	44,586	(414)		Prepayments
01/01/2000	97-3	4,380,305	4,352,268	(28,037)		Prepayments
01/01/2000	98-1	15,000	14,854	(146)		Prepayments
01/01/2000	98-2	20,000	19,806	(194)		Prepayments
04/01/2000	89M	245,000	242,417		(2,583)	Current Refunding
04/01/2000	89O	245,000	243,376		(1,624)	Current Refunding
04/01/2000	90P	248,338	247,494		(844)	Current Refunding

Year Ended June 30, 2000 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Expense/ Loss	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)						
04/01/2000	90S	12,105,000	11,990,734		(114,266)	Current Refunding
04/01/2000	91U	245,000	242,824		(2,176)	Current Refunding
04/01/2000	91W	245,000	242,592		(2,408)	Current Refunding
04/01/2000	92Z1	750,000	744,033		(5,967)	Current Refunding
04/01/2000	92Z2	615,000	610,095		(4,905)	Current Refunding
04/01/2000	96-1	245,000	243,454		(1,546)	Current Refunding
04/01/2000	96-2	245,000	243,202		(1,798)	Current Refunding
04/01/2000	96-4	160,000	158,471		(1,529)	Current Refunding
04/01/2000	97-1	85,000	84,229		(771)	Current Refunding
04/01/2000	97-3	247,514	245,991		(1,523)	Current Refunding
04/01/2000	98-2	30,000	29,713		(287)	Current Refunding
04/01/2000	99-2	5,000	4,971		(29)	Current Refunding
	Sub-Total	$133,367,803	$132,147,927	($253,028)	($ 966,848)	
	Total	$179,492,803	$177,912,765	($326,458)	($1,253,580)	

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

d. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the “Trust Indenture”), provides for the issuance of Agency drawdown notes with a maximum aggregate principal amount of $65,000,000. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be $200,000,000.

The Series 2000CN-1 Notes (the “Notes”), dated December 14, 2000 are in the stated principal amount of $200,000,000; however, the initial principal amount drawn down was $44,705,000. The Notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

On March 13, 2001, the agency initiated a second draw against the 2000CN-1 Notes in the amount of $31,180,000. On June 25, 2001, the agency initiated a third draw against the 2000CN-1 Notes in the amount of $8,980,000. The total amount drawn against the note at June 30, 2001 is $84,865,000.

The Homeownership Program Notes, 2000-2 C & D, are dated June 15, 2000. The notes mature on March 15, 2001, but are subject to optional redemption at par on or after January 1, 2001. Interest on the notes is payable on the date of maturity or upon earlier redemption.

The following table is a summary of notes issued and outstanding as of June 30, 2001, and June 30, 2000.

	NOTES ISSUED (Thousands)			NOTES OUTSTANDING (Thousands)	
Series	Maturity	Stated Principal	Interest Rate (Percent)	06/30/2001	06/30/2000
2000-2C	3/15/2001	$ 20,865	4.750	$ -0-	$20,865
2000-2D	3/15/2001	10,315	4.700	-0-	10,315
2000CN-1	12/13/2001	$200,000	5.307	84,865	-0-
		$231,180		$84,865	$31,180

NOTE 5. EQUITY

The $2,500,000 shown as contributed capital on the balance sheet is an appropriation by the State of Tennessee for the Homebuyers Revolving Loan Program, a pilot demonstration program to fund low interest mortgages. Earnings from the Homebuyers Revolving Loan Program are reserved for use in the Homebuyers Revolving Loan Program.

The Reserve for Grant Programs reflects legislation of the State of Tennessee, effective July 1, 1988, which established the Assets Fund, the Housing Program Fund, and the Housing Program Reserve Fund. This legislation restricts to specific uses all agency funds that are not necessary to support the bond and note obligations and which can be withdrawn from the specific funds of the various bond resolutions as provided under the resolutions. These uses include supporting the rental rehabilitation program, construction loans, grants to local governments and nonprofit organizations, and agency operating expenses.

Initially an amount of $49,018,410 was transferred on the agency's accounting records to the Assets Fund from the General Fund of the Mortgage Finance Program Group. In addition to the monies provided by the agency, TCA Section 13-23-402 allocated a portion of the real estate transfer taxes and the mortgage taxes levied by the State to the Housing Program Fund.

From time to time, the State of Tennessee has called upon the Agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to the Agency. On June 30, 1995, $15,000,000 from the Agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, $43,000,000 was transferred from the Agency to the State General Fund. The $43,000,000 transferred from the Agency came from the following resources of the Agency: (i) $15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) $5,028,761 from the Housing Program Reserve Fund; and (iii) $22,512,082 from the Assets Fund. In addition, the Housing Program Reserve Fund was statutorily abolished effective June 30, 1998.

Beginning July 1, 1999 all tax revenue previously directed to the Agency for the Grant Program was redirected to the State General Fund for one year to reduce certain anticipated State budget shortfalls for fiscal year 1999-2000. Subsequently, legislative actions taken in connection with the adoption of the State's fiscal year 2001 budget have redirected all such tax revenue to the State General Fund to reduce certain anticipated State budget shortfalls for fiscal year 2000-2001. This redirection is permanent, consequently, beginning July 1, 2000, no tax revenues were available to the Agency for the Grant Program.

On November 18, 1999 the Agency's Board of Directors approved a $6,500,000 grant program that will be paid from the General Fund of the Mortgage Finance Bond Group. Of this amount, $4,800,047 was under contract at June 30, 2000, and is included in the Reserve for Grant Programs. At June 30, 2001, $3,500,000 remains unexpended and is included in the Reserve for Grant Programs.

The Reserve for Program Bonds represents the equity that is unavailable for transfer from the Homeownership Program as required by the general bond resolution.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were $313,976, $241,470, and $255,198. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated $750,000 of unreserved retained earnings as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional $232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and $500,000 has been designated for self-insurance of second mortgages.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 10. SUBSEQUENT EVENTS

a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds as indicated below:

July 1, 2001	Mortgage Finance Program	$ 4,710,000
	Homeownership Program	114,909,279
	Total	$119,619,279
October 1, 2001	Mortgage Finance Program	$ 8,740,000
	Homeownership Program	35,040,000
	Total	$ 43,780,000

b. Homeownership Program Bonds, Issue 2001-2 was sold August 30, 2001. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)
2001-2A	1/1/2003 – 7/1/2026	$35,360	3.10 to 5.20	7/1/2029	$ 9,395	5.300
				7/1/2032	11,050	5.375
2001-2B	1/1/2014 – 7/1/2017	4,195	4.70 to 5.00			
TOTAL		$39,555			$20,445	

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 32,698	$ 28,859	$ 211,497	$ 85,138	$ 358,192
Short-term investments	-	28,288	35,742	-	64,030
Receivables:					
Accounts	20	2,121	7,773	-	9,914
Interest	232	5,926	11,619	-	17,777
First mortgage loans	277	10,432	18,729	-	29,438
Due from federal government	5,978	-	-	-	5,978
Due from other funds	-	-	45	-	45
Total current assets	39,205	75,626	285,405	85,138	485,374
Other assets:					
Long-term investments	21,080	167,622	230,780	-	419,482
First mortgage loans receivable	2,014	349,059	1,120,363	-	1,471,436
Deferred charges	15	2,468	9,842	-	12,325
Other receivables	-	-	16	-	16
Total other assets	23,109	519,149	1,361,001	-	1,903,259
Fixed assets:					
Office furniture and fixtures	72	-	-	-	72
Less: accumulated depreciation	(61)	-	-	-	(61)
Total fixed assets	11	-	-	-	11
Total assets	$ 62,325	$ 594,775	$ 1,646,406	$ 85,138	$ 2,388,644
LIABILITIES AND EQUITY					
Liabilities:					
Current liabilities:					
Checks payable	$ -	$ 1,361	$ 889	$ -	$ 2,250
Accounts payable and accruals	3,047	164	6,596	-	9,807
Accrued payroll and related liabilities	229	-	-	-	229
Due to primary government	49	-	-	-	49
Interest payable	-	13,594	35,639	108	49,341
Escrow deposits payable	184	14,645	-	-	14,829
Prepayments on mortgage loans	-	351	1,324	-	1,675
Notes payable	-	-	-	84,865	84,865
Deferred revenue	-	437	420	-	857
Due to other funds	-	45	-	-	45
Bonds payable	-	21,970	140,336	-	162,306
Total current liabilities	3,509	52,567	185,204	84,973	326,253
Noncurrent liabilities:					
Bonds payable	-	427,630	1,266,390	-	1,694,020
Less: Unamortized bond refunding costs	-	(575)	(5,256)	-	(5,831)
Total noncurrent liabilities	-	427,055	1,261,134	-	1,688,189
Total liabilities	3,509	479,622	1,446,338	84,973	2,014,442
Equity:					
Contributed capital	2,500	-	-	-	2,500
Retained earnings:					
Reserved - Grant Programs	48,704	3,500	-	-	52,204
Reserved - Program Bonds	-	-	72,118	-	72,118
Reserved - Homebuyers Revolving Loan Progran	501	-	-	-	501
Unreserved	7,111	111,653	127,950	165	246,879
Total retained earnings	56,316	115,153	200,068	165	371,702
Total equity	58,816	115,153	200,068	165	374,202
Total liabilities and equity	$ 62,325	$ 594,775	$ 1,646,406	$ 85,138	$ 2,388,644

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	$ 134	$ 27,732	$ 80,996	$ -	$ 108,862
Investment income:					
Interest	3,073	10,011	16,848	-	29,932
Net increase in the fair value of investments	2,211	8,132	12,649	1,513	24,505
Fees and other income	1,121	63	-	-	1,184
Total operating revenues	6,539	45,938	110,493	1,513	164,483
OPERATING EXPENSES					
Salaries and benefits	1,797	-	-	-	1,797
Contractual services	742	-	-	-	742
Materials and supplies	157	-	-	-	157
Rentals and insurance	186	-	-	-	186
Other administrative expenses	4	-	-	-	4
Other program expenses	-	172	449	3	624
Interest expense	-	27,853	78,265	1,348	107,466
Mortgage service fees	2	1,312	4,134	-	5,448
Issuance costs	-	211	605	30	846
Depreciation	10	-	-	-	10
Total operating expenses	2,898	29,548	83,453	1,381	117,280
Operating income	3,641	16,390	27,040	132	47,203
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	68,865	-	-	-	68,865
Federal grants expenses	(68,865)	-	-	-	(68,865)
Local grants expenses	(8,474)	-	(155)	-	(8,629)
Total nonoperating revenues (expenses)	(8,474)	-	(155)	-	(8,629)
Income (loss) before transfer and extraordinary loss	(4,833)	16,390	26,885	132	38,574
Transfer (to) from other funds	3,194	(3,220)	(8)	34	-
Income (loss) before extraordinary loss	(1,639)	13,170	26,877	166	38,574
Extraordinary loss on early retirement of debt	-	(26)	(157)	-	(183)
Net income (loss)	(1,639)	13,144	26,720	166	38,391
Retained earnings, July 1	57,955	102,009	173,348	(1)	333,311
Retained earnings, June 30	$ 56,316	$ 115,153	$ 200,068	$ 165	$ 371,702

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	$ 534	$ 74,930	$ 173,313	$ -	$ 248,777
Receipts from other funds	-	7			7
Other miscellaneous receipts	1,121	63	2	-	1,186
Acquisition of mortgage loans	-	(585)	(116,361)	-	(116,946)
Payments to service mortgages	(2)	(1,312)	(4,134)	-	(5,448)
Payments to suppliers	(2,172)	(148)	(347)	(3)	(2,670)
Payments to federal government	-	-	(422)	(125)	(547)
Payments to other funds	-	-	(7)		(7)
Payments to employees	(1,672)	-	-	-	(1,672)
Net cash provided (used) by operating activities	(2,191)	72,955	52,044	(128)	122,680
Cash flows from non-capital financing activities:					
Operating grants received	63,809	-	-	-	63,809
Operating transfers in (out)	3,194	(3,220)	(8)	34	-
Negative cash balance implicitly financed (repaid)	-	1,947	(2,842)	-	(895)
Proceeds from sale of bonds	-	-	135,390	-	135,390
Proceeds from issuance of notes	-	-	-	84,865	84,865
Operating grants paid	(77,339)	-	(155)	-	(77,494)
Cost of issuance paid	-	-	(1,062)	(30)	(1,092)
Principal payments	-	(34,200)	(160,267)	-	(194,467)
Interest paid	-	(28,779)	(72,541)	(1,240)	(102,560)
Net cash provided (used) by non-capital financing activities	(10,336)	(64,252)	(101,485)	83,629	(92,444)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	19,349	118,486	392,189	-	530,024
Purchases of investments	(5,615)	(128,675)	(221,784)	-	(356,074)
Investment interest received	3,360	10,666	21,019	1,513	36,558
Net cash provided by investing activities	17,094	477	191,424	1,513	210,508
Net increase in cash and cash equivalents	4,567	9,180	141,983	85,014	240,744
Cash and cash equivalents, July 1	28,131	19,679	69,514	124	117,448
Cash and cash equivalents, June 30	$ 32,698	$ 28,859	$ 211,497	$ 85,138	$ 358,192

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	$ 3,641	$ 16,390	$ 27,040	$ 132	$ 47,203
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	10	211	605	30	856
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(4)	1,418	(2,890)	-	(1,476)
(Increase) decrease in mortgage interest receivable	15	311	(449)	-	(123)
(Increase) decrease in first mortgage loans receivabl	374	44,076	(20,367)	-	24,083
(Increase) decrease in deferred charges	(9)	-	-	-	(9)
(Increase) decrease in other receivables	-	-	2	-	2
(Increase) decrease in interfund receivables	-	-	(7)	-	(7)
Increase (decrease) in interfund payables	-	7	-	-	7
Increase (decrease) in accounts payable	(991)	517	812	(125)	213
Increase (decrease) in accrued payroll	46	-	-	-	46
Increase (decrease) in due to primary government	11	-	-	-	11
Increase (decrease) in deferred revenue	-	389	(70)	-	319
Investment income included as operating revenue	(5,284)	(18,217)	(30,897)	(1,513)	(55,911)
Interest expense included as operating expense	-	27,853	78,265	1,348	107,466
Total adjustments	(5,832)	56,565	25,004	(260)	75,477
Net cash provided (used) by operating activities	$ (2,191)	$ 72,955	$ 52,044	$ (128)	$ 122,680
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	$ -	$ -	$ 5,353	$ -	$ 5,353
Total noncash investing, capital, and financing activities	$ -	$ -	$ 5,353	$ -	$ 5,353

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEET - OPERATING GROUP
JUNE 30, 2001
(Expressed in Thousands)

	Assets Fund	Housing Program Fund	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 15,073	$ 17,625	$ 32,698
Receivables:			
Accounts	20	-	20
Interest	232	-	232
First mortgage loans	223	54	277
Due from federal government	-	5,978	5,978
Due from other funds	-	220	220
Total current assets	15,548	23,877	39,425
Other assets:			
Long-term investments	21,080	-	21,080
First mortgage loans receivable	1,282	732	2,014
Deferred charges	-	15	15
Total other assets	22,362	747	23,109
Fixed assets:			
Office furniture and fixtures	-	72	72
Less: accumulated depreciation	-	(61)	(61)
Total fixed assets	-	11	11
Total assets	$ 37,910	$ 24,635	$ 62,545
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable and accruals	$ -	$ 3,047	$ 3,047
Accrued payroll and related liabilities	-	229	229
Due to primary government	-	49	49
Escrow deposits payable	-	184	184
Due to other funds	220	-	220
Total liabilities	220	3,509	3,729
Equity:			
Contributed capital	-	2,500	2,500
Retained earnings:			
Reserved - Grant Programs	37,690	11,014	48,704
Reserved - Homebuyers Revolving Loan Program	-	501	501
Unreserved	-	7,111	7,111
Total retained earnings	37,690	18,626	56,316
Total equity	37,690	21,126	58,816
Total liabilities and equity	$ 37,910	$ 24,635	$ 62,545

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY BALANCE SHEET - MORTGAGE FINANCE PROGRAM
JUNE 30, 2001
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 27,040	$ 1,693	$ 28,733	$ 126	$ 28,859
Short-term investments	25,839	560	26,399	1,889	28,288
Receivables:					
Accounts	1,930	191	2,121	-	2,121
Interest	4,800	929	5,729	197	5,926
First mortgage loans	9,878	554	10,432	-	10,432
Total current assets	69,487	3,927	73,414	2,212	75,626
Other assets:					
Long-term investments	99,208	55,351	154,559	13,063	167,622
First mortgage loans receivable	338,383	10,676	349,059	-	349,059
Deferred charges	2,468	-	2,468	-	2,468
Total other assets	440,059	66,027	506,086	13,063	519,149
Total assets	$ 509,546	$ 69,954	$ 579,500	$ 15,275	$ 594,775
LIABILITIES AND EQUITY					
Liabilities:					
Current liabilities:					
Checks payable	$ 285	$ 16	$ 301	$ 1,060	$ 1,361
Accounts payable and accruals	162	2	164	-	164
Interest payable	13,594	-	13,594	-	13,594
Escrow deposits payable	-	463	463	14,182	14,645
Prepayments on mortgage loans	332	19	351	-	351
Deferred revenue	303	30	333	104	437
Due to other funds	45	-	45	-	45
Bonds payable	21,970	-	21,970	-	21,970
Total current liabilities	36,691	530	37,221	15,346	52,567
Noncurrent liabilities:					
Bonds payable	427,630	-	427,630	-	427,630
Less: Unamortized bond refunding costs	(575)	-	(575)	-	(575)
Total noncurrent liabilities	427,055	-	427,055	-	427,055
Total liabilities	463,746	530	464,276	15,346	479,622
Equity:					
Retained earnings:					
Reserved - Grant Program	-	3,500	3,500	-	3,500
Unreserved	45,800	65,924	111,724	(71)	111,653
Total retained earnings	45,800	69,424	115,224	(71)	115,153
Total equity	45,800	69,424	115,224	(71)	115,153
Total liabilities and equity	$ 509,546	$ 69,954	$ 579,500	$ 15,275	$ 594,775

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.
** The Escrow Funds can only be used for escrow payments.